

Copa Holdings, S.A.
Form 20-F
July 02, 2007

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As filed with the Securities and Exchange Commission on July 2, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934
OR**
- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
OR**
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
Commission file number: 001-32696**

COPA HOLDINGS, S.A.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

Republic of Panama

(Jurisdiction of incorporation or organization)

Avenida Principal y Avenida de la Rotonda, Costa del Este

Complejo Business Park, Torre Norte

Parque Lefevre, Panama City

Panama

(+507 304 2677)

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act

Title of each class:

Name of each exchange on which registered

Class A Common Stock, without par value

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: At December 31, 2006, there were outstanding 42,812,500 shares of common stock, without par value, of which 30,034,375 were Class A shares and 12,778,125 were Class B shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and non-accelerated filer in Rule 12b-2 of Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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INTRODUCTION

In this annual report, we use the term **Copa Holdings** to refer to Copa Holdings, S.A., **Copa** or **Copa Airlines** to refer to Compañía Panameña de Aviación, S.A., a subsidiary of Copa Holdings, S.A., and **AeroRepública** to refer to AeroRepública, S.A., a subsidiary of Copa Holdings, S.A. The terms **we**, **us** and **our** refer to Copa Holdings, S.A. together with its subsidiaries, except where the context requires otherwise. References to **Class A shares** refer to Class A shares of Copa Holdings, S.A.

This annual report contains terms relating to operating performance that are commonly used within the airline industry and are defined as follows:

Aircraft utilization represents the average number of block hours operated per day per aircraft for the total aircraft fleet.

Available seat miles or **ASMs** represents the aircraft seating capacity multiplied by the number of miles the seats are flown.

Average stage length represents the average number of miles flown per flight.

Block hours refers to the elapsed time between an aircraft leaving an airport gate and arriving at an airport gate.

Break-even load factor represents the load factor that would have resulted in total revenues being equal to total expenses.

Load factor represents the percentage of aircraft seating capacity that is actually utilized (calculated by dividing revenue passenger miles by available seat miles).

Operating expense per available seat mile represents operating expenses divided by available seat miles.

Operating revenue per available seat mile represents operating revenues divided by available seat miles.

Passenger revenue per available seat mile represents passenger revenue divided by available seat miles.

Revenue passenger miles represents the number of miles flown by revenue passengers.

Revenue passengers represents the total number of paying passengers (including all passengers redeeming OnePass frequent flyer miles and other travel awards) flown on all flight segments (with each connecting segment being considered a separate flight segment).

Yield represents the average amount one passenger pays to fly one mile.

Market Data

This annual report contains certain statistical data regarding our airline routes and our competitive position and market share in, and the market size of, the Latin American airline industry. This information has been derived from a variety of sources, including the International Air Transport Association, the U.S. Federal Aviation Administration, the International Monetary Fund and other third-party sources, governmental agencies or industry or general publications. Information for which no source is cited has been prepared by us on the basis of our knowledge of Latin American airline markets and other information available to us. The methodology and terminology used by different sources are not always consistent, and data from different sources are not readily comparable. In addition, sources other than us use methodologies that are not identical to ours and may produce results that differ from our own estimates. Although we have not independently verified the information concerning our competitive position, market share, market size, market growth or other similar data provided by third-party sources or by industry or general publications, we believe these sources and publications are generally accurate and reliable.

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Presentation of Financial and Statistical Data

Included elsewhere in this annual report are our audited consolidated balance sheets at December 31, 2005 and 2006 and the audited consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2004, 2005 and 2006. The consolidated financial information as of December 31, 2003 and 2004, and for the years ended December 31, 2002 and 2003 has been derived from our audited consolidated financial statements that were prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP and which have not been included in this annual report. The consolidated financial information as of December 31, 2002 has been derived from our audited consolidated financial statements that were prepared under International Financial Reporting Standards and adjusted to be presented on a basis consistent with U.S. GAAP and which have not been included in this annual report.

Our audited and unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP and are stated in U.S. dollars. We began consolidating the results of our AeroRepública operating subsidiary as of its acquisition date on April 22, 2005. Unless otherwise indicated, all references in the annual report to \$ or dollars refer to U.S. dollars, and all references to Pesos or Ps. refer to Colombian pesos, the local currency of Colombia.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Special Note About Forward-Looking Statements

This annual report includes forward-looking statements, principally under the captions Risk Factors, Business Overview and Operating and Financial Review and Prospects. We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- general economic, political and business conditions in Panama and Latin America and particularly in the geographic markets we serve;
- our management's expectations and estimates concerning our future financial performance and financing plans and programs;
- our level of debt and other fixed obligations;
- demand for passenger and cargo air service in the markets in which we operate;
- competition;
- our capital expenditure plans;
- changes in the regulatory environment in which we operate;
- changes in labor costs, maintenance costs, fuel costs and insurance premiums;
- changes in market prices, customer demand and preferences and competitive conditions;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy;

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our ability to obtain financing on commercially reasonable terms; and
the risk factors discussed under Risk Factors beginning on page 4.

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after the date of this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance. Considering these limitations, you should not place undue reliance on forward-looking statements contained in this annual report.

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**A. Selected Financial Data**

The following table presents summary consolidated financial and operating data for each of the periods indicated. Our consolidated financial statements are prepared in accordance with U.S. GAAP and are stated in U.S. dollars. You should read this information in conjunction with our consolidated financial statements included in this annual report and the information under Selected Financial Data and Item 5. Operating and Financial Review and Prospects appearing elsewhere in this annual report.

The summary consolidated financial information as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 has been derived from our audited consolidated financial statements included elsewhere in this annual report. The consolidated financial information as of December 31, 2003 and 2004, and for the years ended December 31, 2002 and 2003 has been derived from our audited consolidated financial statements that were prepared under U.S. GAAP and which have not been included in this annual report. The consolidated financial information as of December 31, 2002 has been derived from our audited consolidated financial statements that were prepared under International Financial Reporting Standards and adjusted to be presented on a basis consistent with U.S. GAAP and which have not been included in this annual report.

We acquired 99.8% of the stock of AeroRepública, a Colombian air carrier, and began consolidating its results on April 22, 2005. As a result of this acquisition, our financial information prior to and after the acquisition is not comparable.

Year Ended December 31,
2002 2003 2004 2005⁽²⁰⁾ 2006
(in thousands of dollars, except share and per share data and operating data)

INCOME STATEMENT DATA

Operating revenue:

| | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Passenger revenue | \$ 269,629 | \$ 311,683 | \$ 364,611 | \$ 563,520 | \$ 798,901 |
| Cargo, mail and other | 31,008 | 30,106 | 35,226 | 45,094 | 52,259 |

| | | | | | |
|--------------------------|---------|---------|---------|---------|---------|
| Total operating revenues | 300,637 | 341,789 | 399,837 | 608,614 | 851,160 |
|--------------------------|---------|---------|---------|---------|---------|

Operating expenses:

| | | | | | |
|--|--------|--------|--------|---------|---------|
| Aircraft fuel | 40,024 | 48,512 | 62,549 | 149,303 | 217,730 |
| Salaries and benefits | 39,264 | 45,254 | 51,701 | 69,730 | 91,382 |
| Passenger servicing | 33,892 | 36,879 | 39,222 | 50,622 | 64,380 |
| Commissions | 28,720 | 27,681 | 29,073 | 45,087 | 57,808 |
| Reservations and sales | 16,707 | 18,011 | 22,118 | 29,213 | 38,212 |
| Maintenance, materials and repairs | 20,733 | 20,354 | 19,742 | 32,505 | 50,057 |
| Depreciation | 13,377 | 14,040 | 19,279 | 19,857 | 24,874 |
| Flight operations | 14,567 | 15,976 | 17,904 | 24,943 | 33,740 |
| Aircraft rentals | 21,182 | 16,686 | 14,445 | 27,631 | 38,169 |
| Landing fees and other rentals | 8,495 | 10,551 | 12,155 | 17,909 | 23,929 |
| Other | 19,166 | 25,977 | 29,306 | 32,622 | 44,758 |
| Fleet impairment charge ⁽¹⁾ | 13,669 | 3,572 | | | |

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| | | | | | |
|--------------------------------------|---------|----------|----------|----------|----------|
| Total operating expenses | 269,796 | 283,493 | 317,494 | 499,422 | 685,039 |
| Operating income | 30,841 | 58,296 | 82,343 | 109,192 | 166,121 |
| Non-operating income (expense): | | | | | |
| Interest expense | (7,629) | (11,613) | (16,488) | (21,629) | (29,150) |
| Interest capitalized | 1,114 | 2,009 | 963 | 1,089 | 1,712 |
| Interest income | 831 | 887 | 1,423 | 3,544 | 7,257 |
| Other, net ⁽²⁾ | (1,490) | 2,554 | 6,063 | 395 | 185 |
| Total non-operating expenses, net | (7,174) | (6,163) | (8,039) | (16,601) | (19,996) |
| Income before income taxes | 23,667 | 52,133 | 74,304 | 92,591 | 146,125 |
| Provision for income taxes | (2,999) | (3,644) | (5,732) | (9,592) | (12,286) |
| Net income | 20,668 | 48,489 | 68,572 | 82,999 | 133,839 |

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| | Year Ended December 31, | | | | |
|---|--|-------------|-------------|----------------------------|-------------|
| | 2002 | 2003 | 2004 | 2005⁽²⁰⁾ | 2006 |
| | (in thousands of dollars, except share and per share data and operating data) | | | | |
| BALANCE SHEET DATA | | | | | |
| Total cash, cash equivalents and short-term investments | \$ 34,476 | \$ 61,432 | \$ 110,943 | \$ 114,490 | \$ 197,380 |
| Accounts receivable, net | 24,006 | 31,019 | 27,706 | 46,533 | 62,137 |
| Total current assets | 68,940 | 103,523 | 152,087 | 184,351 | 290,651 |
| Purchase deposits for flight equipment | 55,867 | 45,869 | 7,190 | 52,753 | 65,150 |
| Total property and equipment | 345,411 | 480,488 | 541,211 | 637,543 | 862,283 |
| Total assets | 421,935 | 591,915 | 702,050 | 916,912 | 1,255,015 |
| Long-term debt | 211,698 | 311,991 | 380,827 | 402,954 | 529,802 |
| Total shareholders equity | 67,094 | 115,583 | 174,155 | 245,867 | 371,669 |
| CASH FLOW DATA | | | | | |
| Net cash provided by operating activities | \$ 55,543 | \$ 73,479 | \$ 98,051 | \$ 115,368 | \$ 193,468 |
| Net cash used in investing activities | (150,203) | (151,802) | (85,738) | (159,886) | (258,980) |
| Net cash provided by financing activities | 100,400 | 105,298 | 29,755 | 38,929 | 141,498 |
| OTHER FINANCIAL DATA | | | | | |
| EBITDA ⁽³⁾ | 42,728 | 74,890 | 107,685 | 129,444 | 191,180 |
| Aircraft rentals | 21,182 | 16,686 | 14,445 | 27,631 | 38,169 |
| Operating margin ⁽⁴⁾ | 10.3% | 17.1% | 20.6% | 17.9% | 19.5% |
| Weighted average shares used in computing net income per share (basic) ⁽⁵⁾ | 42,812,500 | 42,812,500 | 42,812,500 | 42,812,500 | 42,812,500 |
| Weighted average shares used in computing net income per share (diluted) ⁽⁵⁾ | 42,812,500 | 42,812,500 | 42,812,500 | 42,812,500 | 43,234,553 |
| Net income (loss) per share (basic) ⁽⁵⁾ | \$ 0.48 | \$ 1.13 | \$ 1.60 | \$ 1.94 | \$ 3.13 |
| Net income (loss) per share (diluted) ⁽⁵⁾ | \$ 0.48 | \$ 1.13 | \$ 1.60 | \$ 1.94 | \$ 3.10 |
| OPERATING DATA | | | | | |
| Revenue passengers carried ⁽⁶⁾ | 1,819 | 2,028 | 2,333 | 4,361 | 5,741 |
| Revenue passenger miles ⁽⁷⁾ | 1,875 | 2,193 | 2,548 | 3,824 | 5,017 |
| Available seat miles ⁽⁸⁾ | 2,847 | 3,226 | 3,639 | 5,359 | 6,866 |
| Load factor ⁽⁹⁾ | 65.9% | 68.0% | 70.0% | 71.4% | 73.1% |
| Break-even load factor ⁽¹⁰⁾ | 54.5% | 52.8% | 52.6% | 57.9% | 58.0% |
| Total block hours ⁽¹¹⁾ | 58,112 | 64,909 | 70,228 | 103,628 | 130,818 |

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Average daily aircraft utilization ⁽¹²⁾ | 8.8 | 9.0 | 9.3 | 9.8 | 9.8 |
| Average passenger fare | 148.2 | 153.7 | 156.3 | 129.2 | 139.2 |
| Yield ⁽¹³⁾ | 14.38 | 14.22 | 14.31 | 14.74 | 15.92 |
| Passenger revenue per ASM ⁽¹⁴⁾ | 9.47 | 9.66 | 10.02 | 10.51 | 11.64 |
| Operating revenue per ASM ⁽¹⁵⁾ | 10.56 | 10.60 | 10.99 | 11.36 | 12.40 |
| Operating expenses per ASM (CASM) ⁽¹⁶⁾ | 9.48 | 8.79 | 8.72 | 9.32 | 9.98 |
| Departures | 23,361 | 25,702 | 27,434 | 48,934 | 65,471 |
| Average daily departures | 64.0 | 70.4 | 75.0 | 156.6 | 179.4 |
| Average number of aircraft | 18.1 | 19.8 | 20.6 | 31.0 | 38.6 |
| Airports served at period end | 27 | 28 | 29 | 36 | 42 |

SEGMENT FINANCIAL DATA

Copa:

| | | | | | |
|------------------------------|------------|------------|------------|------------|------------|
| Operating revenue | \$ 300,637 | \$ 341,789 | \$ 399,837 | \$ 505,655 | \$ 676,168 |
| Operating expenses | 269,796 | 283,493 | 317,494 | 402,684 | 509,540 |
| Depreciation | 13,377 | 14,040 | 19,279 | 19,242 | 23,732 |
| Aircraft rentals | 21,182 | 16,686 | 14,445 | 22,096 | 23,842 |
| Interest expense | 7,629 | 11,613 | 16,488 | 19,424 | 26,907 |
| Interest capitalized | 1,114 | 2,009 | 963 | 1,089 | 1,712 |
| Interest income | 831 | 887 | 1,423 | 3,376 | 6,887 |
| Net income (loss) before tax | 23,667 | 52,133 | 74,304 | 89,745 | 155,533 |
| Total assets | 421,935 | 591,915 | 702,050 | 851,075 | 1,168,121 |

AeroRepública: ⁽²¹⁾

| | | | | | |
|------------------------------|--|--|--|------------|------------|
| Operating revenue | | | | \$ 103,016 | \$ 175,883 |
| Operating expenses | | | | 96,839 | 176,388 |
| Depreciation | | | | 615 | 1,142 |
| Aircraft rentals | | | | 5,535 | 14,604 |
| Interest expense | | | | 2,205 | 2,243 |
| Interest capitalized | | | | | |
| Interest income | | | | 168 | 370 |
| Net income (loss) before tax | | | | 2,846 | (9,408) |
| Total assets | | | | 98,091 | 132,872 |

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| | Year Ended December 31, | | | | |
|---|--|-------------|-------------|----------------------------|-------------|
| | 2002 | 2003 | 2004 | 2005⁽²⁰⁾ | 2006 |
| | (in thousands of dollars, except share and per share data and operating data) | | | | |
| SEGMENT OPERATING DATA | | | | | |
| <i>Copa:</i> | | | | | |
| Available seat miles ⁽⁸⁾ | 2,847 | 3,226 | 3,639 | 4,409 | 5,239 |
| Load factor ⁽⁹⁾ | 65.9% | 68.0% | 70.0% | 73.4% | 77.8% |
| Break-even load factor | 54.5% | 52.8% | 52.6% | 56.8% | 56.1% |
| Yield ⁽¹³⁾ | 14.38 | 14.22 | 14.31 | 14.41 | 15.49 |
| Operating revenue per ASM ⁽¹⁵⁾ | 10.56 | 10.60 | 10.99 | 11.47 | 12.91 |
| CASM ⁽¹⁶⁾ | 9.48 | 8.79 | 8.72 | 9.13 | 9.73 |
| Average stage length ⁽¹⁸⁾ | 1,010 | 1,028 | 1,047 | 1,123 | 1,158 |
| On time performance ⁽¹⁷⁾ | 90.5% | 91.4% | 91.8% | 91.7 | |